

**INTERNAL AUDIT SERVICE
TERMS OF REFERENCE & INTERNAL AUDIT STRATEGY
(Report by the Audit & Risk Manager)**

1. Introduction

- 1.1 The terms of reference and strategy documents for Internal Audit were last approved by the Panel in August 2004. Revisions to the Accounts & Audit Regulations 2003 together with the issue of revised proper practice for internal audit, the CIPFA Code of Practice for Internal Audit 2006 (Code), have prompted a review of both documents.
- 1.2 The Code requires that the terms of reference for the internal audit function should be formally approved by the Corporate Governance Panel.

2. Changes Proposed

- 2.1 The main changes made to the terms of reference and audit strategy are listed below for ease of reference.

Terms of reference

- The responsibilities placed upon the Audit & Risk Manager regarding the delivery of a risk management and insurance service have been clearly set out.
- Included for the first time is a statement that makes it clear that the Audit & Risk Manager shall have the opportunity to meet with the Chairman of the Panel and/or the relevant Portfolio Holder, if he feels it necessary.
- The timing of the annual audit report and opinion has been set out. The opinion is required to be presented to the Panel prior to it considering the Council's Annual Statement of Assurance on Corporate Governance.
- The statutory requirements for an annual review of the systems of internal audit has been included. Also included are details of how the review will be reported to the Panel.

Internal Audit Strategy

- The strategy now states that the annual audit plan shall be sufficiently wide ranging to allow an opinion on the internal control environment to be formed by the Audit & Risk Manager. The planning process will also place continuing reliance on risk registers and the assurance framework.
- The line management responsibilities of the Head of Financial Services have been included for the first time. Further information regarding this point is made at 3.2 below.
- Similar to the terms of reference, the requirement for an annual review of the internal audit service has been included.
- The managed audit approach instituted by the previous External Auditor has been replaced with an Internal Audit commitment to work closely with the current external auditor to make the best use of the audit

resources available e.g. the co-ordination of audit plans, sharing of audit reports, or joint working.

3. Compliance with the Code

- 3.1 It is a requirement of the Code that any element of non-compliance is highlighted and reported to the Panel, together with any safeguards or measures that have been introduced to mitigate this. There is one area in which this applies.
- 3.2 The code expects the Audit & Risk Manager to be directly line-managed by a member of the Corporate Management Team. In the Director of Commerce & Technology's opinion, it is an advantage to the Internal Audit service to have the benefit of the added level of management and expertise accorded by it reporting to the Head of Financial Services. To mitigate any disadvantage that this might create the independence of the Audit & Risk Manager is assured by him having the right of access to the Director of Commerce & Technology whenever he considers it appropriate. This is reflected in the Audit Strategy.

4. Recommendation

- 4.1 It is recommended that the Panel approve the terms of reference and internal audit strategy.

ACCESS TO INFORMATION ACT 1985

CIPFA Code of Audit Practice 2006

Accounts & Audit Regulations 2003

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**Internal Audit Service
Terms of Reference**

INTERNAL AUDIT SERVICE TERMS OF REFERENCE

Statutory Requirements

The Accounts & Audit Regulations 2003¹ require the Council to “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices”.

“Proper practice” is contained in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code of Practice).

Director of Commerce & Technology

The Director of Commerce & Technology, under the Code of Financial Management², is the officer responsible for maintaining an internal audit service.

Effective reporting and managerial arrangements will be established between the Director and the Audit & Risk Manager.

The Director shall ensure that at least once a year, a review of the effectiveness of the Internal Audit Service, to include its compliance with the Code of Practice, shall be completed. The findings of the review shall be reported to the Corporate Governance Panel to coincide with the Panel's consideration of the Annual Statement of Assurance on Corporate Governance.

Definition and Role of Internal Audit

Internal Audit is an assurance service with the primary aim of providing an independent and objective opinion to the Council on the overall adequacy of the Council's control environment. It will objectively examine, evaluate and report on the effectiveness of the control environment to ensure the correct balance between propriety and cost effectiveness in achieving the Council's objectives.

The Code of Financial Management shall contain a statement explaining Internal Audit's responsibilities.

Responsibility for the management of services rests fully with Directors and their managers³. This includes ensuring value for money, minimising the risk of services not being delivered and reducing the opportunities for theft, fraud and corruption by ensuring that appropriate and adequate risk and control arrangements exist. Internal Audit compliments this by providing an expert and independent appraisal function to help managers determine the adequacy of their internal control, risk management and governance processes.

Internal Audit Responsibility

In order to fulfil its role the Internal Audit Service shall:

- Prepare a strategy document explaining how the service will be delivered which will include an explanation of the assessment of resources required.
- Undertake reviews that focus on the areas of greatest risk to the Council.
- Have the authority and right of access to all relevant records, assets, personnel and premises, including those of partner organisations, that it considers necessary to fulfil its responsibilities.
- Report to the Corporate Governance Panel on the matters referred to in the Code of Practice.

¹ Including the Accounts & Audit (Amendment)(Regulations) 2006

² Paragraph 1.9

³ Code of Financial Management: paragraph 1.11

- Provide clear reports that provide management with an opinion on the soundness, adequacy and application of internal controls.
- Enhance efficient and effective risk and control management by recommending cost effective controls which aim to improve service delivery whilst avoiding or minimising operational losses.
- Provide an annual opinion to the Chief Officers' Management Team, timed to coincide with the preparation of the Annual Statement of Assurance on Corporate Governance, on the soundness of the systems of internal control and the internal control environment.
- Provide advice and training on the management of risk and on issues surrounding the design, implementation and operation of systems of internal control.
- Contribute to the general management and conduct of business through provision of expertise on appropriate working groups and participation in ad-hoc exercises, including value for money, best value or consultancy studies.
- Have in place arrangements that ensure that it is notified of all suspected or detected instances of fraud, corruption or impropriety. Investigate and report upon all (non-benefit related) frauds and irregularities in accordance with documented procedures. (The Head of Revenue Services is responsible for investigating benefit related fraud).

Independence

The Audit & Risk Manager is responsible for the delivery of the Internal Audit, Insurance and Risk Management services. All three areas have a key part to play in mitigating the risks facing the Council. Responsibility for these operational areas is recognised by the Director of Commerce & Technology and the Corporate Governance Panel, together with the possibility that occasionally these responsibilities could, unless specifically addressed, compromise the operational independence of the Internal Audit Service.

Therefore, clear separation and divisions of duty will be established by the Audit & Risk Manager to ensure that the Internal Audit staff who have been involved in dealing with risk management operational matters do not undertake audit reviews within this area.

Apart from the areas of risk management and insurance, the Internal Audit Service shall not be responsible for the operation of any systems which could compromise its independence. It will however proactively offer advice and guidance on risk and internal control implications arising from planned or proposed changes to, or development of, systems or services.

The Audit & Risk Manager be responsible for the content of the annual audit plan and shall have direct access to, and freedom to report in his own name and without fear or favour to, all Officers and Members.

Audit Management

The Council shall appoint an Audit & Risk Manager who will be required to determine the priorities of, deliver, and manage the Internal Audit Service for the Council. In discharging these duties the Audit & Risk Manager will:

- Ensure that he has a comprehensive understanding of the Council's systems, structures and operations so allowing for, after consulting with senior management, the preparation of a strategic risk based audit plan
- Update the plan regularly to reflect changes in Council priorities and risk registers

- Translate the strategic plan into annual plans for formal agreement with the Director of Commerce & Technology
- Ensure that an audit brief is prepared for each individual audit assignment undertaken, setting out the scope and objectives of the work, timescales and reporting arrangements
- Ensure that all audit work is completed to high standards and in accordance with appropriate professional standards
- Maintain an internal audit manual that describes the standards, practices and procedures that are required to be met by internal audit staff and contractors
- Undertake an annual review of the development and training needs of internal audit staff and arrange for appropriate training to be provided
- Establish effective relationships with managers at all levels
- Proactively work with the External Auditor to ensure that audit resources are used in the most effective and efficient manner
- Monitor the effectiveness of the service delivered and compliance with professional and ethical standards.

Audit Reporting

At the completion of an audit assignment a written report will be agreed with the appropriate manager. The report shall contain an opinion on the adequacy of the risk management and internal control arrangements within the area of review and, where necessary, list the actions for improvements. If the manager and auditor cannot reach consensus then the appropriate Director(s) will resolve the issue.

Copies of all final audit reports shall be sent to the Director of Commerce & Technology and the External Auditor. Electronic copies will be made available to Members via the intranet.

The Audit & Risk Manager shall report to the Corporate Governance Panel any probity issues that arise, either directly from an audit or via an investigation into a fraud related matter, following the conclusion of his review.

Implementation of Agreed Audit Actions

The Audit & Risk Manager shall regularly review the progress made by managers in introducing the agreed actions and shall report quarterly to each Director on the actions taken. Each Director shall take appropriate action to ensure that agreed actions are implemented.

Corporate Governance Panel

The Audit & Risk Manager shall present an annual and interim report to the Panel that meets the requirements of the Code of the Practice. The annual report shall be timed to support the Council's Annual Statement of Assurance on Corporate Governance and include an opinion on the overall adequacy and effectiveness of the control environment.

The Audit & Risk Manager shall have the right to report to the Panel and attend all of its meetings.

The Audit & Risk Manager will have the right, if he feels it is necessary, to meet with the Chairman of the Corporate Governance Panel and/or the relevant Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.

Professional & Ethical Standards

The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times.

All Internal Audit staff shall comply with the ethical standards contained in the *Code of Practice* and those professional and ethical standards issued by the professional body to which they belong. They shall also comply with the Council's own codes and ethical standards.